

SUBCOMMITTEE NO. 4

Agenda

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9:30 or Upon Adjournment of Session
Room 112

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8550 California Horse Racing Board

The seven-member California Horse Racing Board (CHRB) licenses racing industry participants, enforces racing rules related to drugs and other offenses, administers efforts to protect racing horses, and oversees programs to improve the health of jockeys and other industry employees. The purpose of the CHRB is to regulate pari-mutuel wagering for the protection of the betting public, to promote the horse racing and breeding industries, and to maximize State of California tax revenues. The CHRB regulates operations at 14 racetracks, 20 simulcast facilities, and advance deposit wagering services (available via telephone or on-line). In total, the horse racing industry employs an estimated 30,000 Californians.

The CHRB reports that in 2004-05, the total money wagered in California was \$4.2 billion. The state's revenue from horseracing is principally derived from unclaimed pari-mutuel tickets. Additional revenue is derived from licenses issued to horse owners, trainers, jockeys, grooms and others, and from fines. In 2004-05, revenue to the General Fund from these sources totaled \$4 million.

California Horse Racing Board – Source of Funds					
Fund	<i>Expenditures (dollars in thousands)</i>				Percent Change
	2004-05	2005-06	2006-07	Change	
Fair and Exposition Fund	\$8,398	\$8,463	\$8,685	\$222	2.6%
Racetrack Security Account	269	270	1,423	1,153	427.0%
Horse Racing Board	\$8,667	\$8,733	\$10,108	\$1,375	15.7%
Authorized Positions	55.0	57.0	57.0	0	0.0%

Budget Request: The budget proposes \$10.1 million special funds (\$8.7 million from the Fair and Exhibition Fund and \$1.4 million from the Racetrack Security Account), an increase of \$1.4 or 15.7 percent from the estimated current year expenditures.

Proposed Vote Only Issue

Issue Title	Positions	Dollars
A. Office of Administrative Hearings. Requests funding to augment the budget for the costs of administrative hearings from \$25,000 to \$41,000, based on recent annual expenditures. After an investigation, if the CHRB believes a licensee has violated a CHRB regulation, a complaint is filed with the Board of Stewards, which holds an evidentiary hearing and renders a written decision. If the Stewards decision is appealed, an appeal hearing is held before an administrative law judge from the Office of Administrative Hearings (OAH). OAH cases can vary from financial complaints to drug positive findings. (Special Fund)		\$26,000

Staff Recommendation. No issues have been raised by the LAO or staff on the vote-only issue. Staff recommends approval of this vote-only issue.

Action.

Discussion Issue

1. Drug Testing Costs

Budget Request. The budget proposes an increase of \$851,000 from the Racetrack Security Fund for increased costs for drug testing services. This amount would increase the CHRB's drug testing budget from \$1.3 million to \$2.2 million.

LAO Recommendation. The LAO indicates that the CHRB has not provided evidence that the integrity of California racing would decline if CHRB continues to receive its 2005-06 testing budget in the budget year. The LAO notes that California currently tests and spends roughly the same amount on testing (per race) as the national average. Because CHRB has other options to meet its legislative mandates on drug testing, the LAO recommends rejecting the proposal for \$851,000 of funding from the Racetrack Security Fund. This recommendation would increase General Fund resources by an equal amount.

The LAO has identified several other options that would allow CHRB to meet its legislative mandates and reduce state costs below those proposed:

- Testing more than 50 percent of samples at the Maddy Lab (making it the primary lab) and resuming use of other laboratories, chosen through competitive bidding, for the rest of samples.
- Continuing the practice adopted in 2005-06 of using the Maddy Lab as the only testing facility and testing most of the submitted samples, chosen randomly.
- Reducing the number of required samples each race day through regulatory changes.
- Requesting legislative authorization to charge racing associations and/or owners for the increased testing costs, similar to the way that milkshake testing is funded under Chapter 179.

Background. In 2004-05, the CHRB spent \$1.1 million on its equine drug testing program, which tested about 32,000 urine and blood samples. Two-thirds of the samples were sent to a private laboratory chosen by competitive bid at a cost of \$540,000. The remaining one-third of samples was sent to the Kenneth L. Maddy Equine Analytical Laboratory (Maddy Lab) at the University of California, Davis. The Maddy Lab charged CHRB \$541,000 – roughly twice as much per sample. One reason for the price difference is that the Maddy Lab uses more advanced technology – with broader capabilities to detect prohibited substances – than nearly all private testing facilities.

The CHRB decided to move all of its testing to the Maddy Lab in 2005-06. Testing expenses in 2005-06 will be an estimated \$1.3 million, up 23 percent from the prior fiscal year. (This does not include costs for milkshake testing, for which racing associations pay the Maddy Lab directly.) Because of the Maddy Lab's higher costs, CHRB has implemented a policy that the Maddy Lab will test routine drug samples on a random basis. This means that only around two-thirds of samples collected according to CHRB rules are being tested.

Staff Comments. The Budget Change Proposal submitted by the CHRB indicates that they are currently testing two-thirds of the samples collected and that the requested funding will allow them to test 100 percent of the samples collected at the Maddy Lab. The CHRB has indicated that the Maddy Lab is one of two labs nationwide that utilizes mass spectrometers and other sophisticated instrumentation testing, allowing lab personnel to detect and quantify more than 800 drug substances. The CHRB also indicated that no other states use instrumentation testing for 100 percent of the samples collected.

Staff Recommendation. Given that California currently tests and spends roughly the same amount on testing per race as the national average and that no other state uses instrumentation testing for 100 percent of the samples collected, staff concurs with the LAO recommendation to reject the proposal for an augmentation of \$851,000 from the Racetrack Security Fund. This recommendation would increase General Fund resources by an equal amount.

Action.

8690 Seismic Safety Commission

The Seismic Safety Commission (SSC) was established to improve earthquake preparedness and safety in California. Specifically, the commission is responsible for providing a consistent framework for earthquake-related programs and coordinating the administration of these programs throughout state government. The 17-member commission performs policy studies, reviews programs, investigates earthquake incidents, and conducts hearings on earthquake safety. The commission advises the Legislature and the Governor on legislative proposals, the state budget, and grant proposals related to earthquake safety.

Budget Request: The budget proposes total expenditures of \$1.1 million (\$1.1 million from the Insurance Fund and \$75,000 in reimbursements) for 6.8 positions at the SSC. This amount is a decrease of \$63,000, or 5.2 percent from estimated current-year expenditures.

Discussion Issue

1. Fund Source for the SSC Sunsets July, 1, 2007.

As part of the 2003-04 Budget, the Governor and Legislature agreed to shift the primary funding for the Seismic Safety Commission (SSC) from the General Fund to the Insurance Fund. The Department of Insurance was authorized to collect a small assessment from property insurance carriers and to transfer the collected funds to a new Seismic Safety Account in the Insurance Fund. Funds in the account would be used to support the SSC's annual budget (approximately \$1 million). A sunset of July 1, 2007 was placed on the new funding arrangement to allow the Department of Insurance to evaluate its impact. In 2005, with the approval and support of the Department of Insurance, the SSC sponsored AB 1374 (Liu) which would extend the sunset to July 2013. AB 1374 was passed by the Legislature, but vetoed by Governor Schwarzenegger. The veto message cited a finding by the California Performance Review that the Commission's duties may be duplicative of other state agencies.

In response to directions in the veto message, the SSC commenced meetings with the Administration in December 2005. Those discussions are still continuing. The Administration and SSC intend to reach agreement by April on the SSC's future role and funding.

Staff Comments. The proposed budget does not include any proposals for extending the sunset. Without legislative action in 2006, the SSC would need to discontinue its operations – likely in late 2006 – because of state personnel rules and the expiration of the Commission's lease prior to July 2007. The current July 2007 sunset, and the steps that must precede it to avoid interruption of the Commission's operations, require a resolution of the Commission's status as part of the 2006 budget process.

Staff Recommendation. Staff recommends that the Subcommittee ask SSC to provide an update on the status of discussions, including an anticipated timeline for submitting a proposal to the Legislature regarding the future of the SSC. Staff recommends holding this budget open pending a revised proposal from the Administration.

Action.

8120 Commission on Peace Officer Standards and Training (POST)

The Commission on Peace Officer Standards and Training (POST) is responsible for raising the competency level of law enforcement officers by establishing minimum selection and training standards, improving management practices, and assisting local law enforcement agencies in providing necessary training and career development programs.

Budget Request. The budget proposes a total of \$57.5 million, which is an increase of \$1.3 million, or 2.3 percent from the current-year budget.

Funding within POST supports law enforcement training needs such as developing and certifying courses that meet identified training needs; quality control of POST-certified courses, management and leadership training; and identifying emerging training needs. The budget proposes expenditures of \$56.2 million from the Peace Officer's Training Fund (POTF).

POST Program Expenditures					
Program	<i>Expenditures (dollars in thousands)</i>				Percent Change
	2004-05	2005-06	2006-07	Change	
Standards	\$5,982	\$5,082	\$5,203	\$121	2.4%
Training	26,338	29,180	30,333	1,153	4.0%
Peace Officer Training	17,732	21,944	21,944	0	0.0%
Administration	5,030	5,618	5,772	154	2.7%
Distributed Administration	-5,030	-5,618	-5,772	-154	-2.7%
Totals, Programs	\$50,052	\$56,206	\$57,480	\$1,274	2.3%
Total Authorized Positions	111.0	115.0	115.0	0	0.0%

Proposed Vote Only Issue

Issue Title	Positions	Dollars
A. Web-Based Training Funding. Requests \$350,000 on a one-time basis to develop Web-based training, performance support tools and other web-based resources for law enforcement training. The proposal would fund replacement of outdated CD-ROM courses with updated Web-based training courses. (Special Fund)	0	\$350,000

Staff Recommendation. No issues have been raised by the LAO or staff on the vote-only issue. Staff recommends approval of this vote-only issue.

Action.

Discussion Issue.**1. Budget Control Language – Authorization for the Director of Finance to Augment Expenditures**

Budget Request. Provision 2 of Budget Item 8120-101-0268 provides that the Director of Finance may authorize additional expenditures out of the POTF with written notification to the Joint Legislative Budget Committee. The following proposed language has been in the budget act since at least 1998-99:

Provision 2. The Director of Finance may authorize the augmentation of the total amount available for expenditure under this item in the amount of revenue received by the Peace Officers' Training Fund that is in addition to the revenue appropriated by this item, not sooner than 30 days after written notification to the chairpersons of the respective fiscal committees and the Chairperson of the Joint Legislative Budget Committee or his or her designee.

Staff Comments. The POST indicates that this provision has not been used to-date to augment expenditure authority from the POTF. Staff notes that the revenues coming into the fund have not fluctuated widely and that the Administration has several opportunities during the budget process to request an augmentation to the amount appropriated from the fund should revenues increase.

Staff Recommendation. Staff recommends deletion of Provision 2 of Budget Item 8120-101-0268.

Action.

Control Section 24.10 – Driver Training Fund Transfers

Background. The Driver Training Penalty Assessment Fund receives funds from a portion of the State Penalty Assessment Fund. Historically, using Control Section 24.10, specified portions of the Driver Training Penalty Assessment Fund have been transferred to the Victim/Witness Assistance Fund, the Peace Officers' Training Fund, and the Corrections Training Fund, with the remaining balance going to the General Fund.

Proposed Language. Proposed budget bill language would transfer up to \$14 million to the Peace Officer Training Fund, up to \$4.1 million to the Victim Witness Assistance Fund, and an estimated \$22.8 million to the General Fund.

Staff Recommendation. The language is similar to language approved in the last several years. Staff recommends approval as budgeted.

Action.

0855 California Gambling Control Commission

The California Gambling Control Commission (GCC) was established by Chapter 867, Statutes of 1997 (SB 8, Lockyer). The five-member commission is appointed by the Governor and subject to Senate confirmation. The GCC is the primary public entity that regulates and licenses personnel and operations of the state's gambling industry. The GCC regulates 55 tribal casinos and more than 100 gambling establishments and cardrooms.

California Gambling Control Commission – Source of Funding

Fund	<i>Expenditures (dollars in thousands)</i>				Percent Change
	2004-05	2005-06	2006-07	Change	
General Fund	\$0	\$0	\$725	\$725	n/a
Indian Gaming Revenue Sharing Trust Fund	73,844	97,445	96,500	-945	-1.0%
Indian Gaming Special Distribution Fund	36,190	86,332	37,357	-48,975	-56.7%
Gambling Control Fund	1,534	2,180	2,854	674	32.0%
Totals, Funds	\$111,568	\$185,957	\$137,436	-\$48,521	-26.1%

California Gambling Control Commission – Program Funding

Fund	<i>Expenditures (dollars in thousands)</i>				Percent Change
	2004-05	2005-06	2006-07	Change	
Gambling Control Commission					
<i>State Operations</i>	\$6,610	\$8,366	\$10,936	2,570	30.7%
<i>Local Assistance</i>	106,744	129,576	126,500	-3,076	-2.4%
Total	\$104,958	\$177,591	\$137,436	-\$48,521	-26.1%
Authorized Positions	40.1	45.6	68.4	22.8	50.0%

Budget Request. The budget proposes total expenditures of \$137.4 million (\$725,000 General Fund, and \$136.7 million from special funds), which is a decrease of \$48.5 million from estimated current-year expenditures. The reduction in funding is primarily due to a one-time appropriation of \$50 million, in the current year, from the Indian Gaming Special Distribution Fund (SDF) to the Indian Gaming Revenue Sharing Trust Fund (IGRSTF) in order to ensure that payments from IGRSTF to non-gaming tribes were done on a quarterly basis rather than as a lump-sum payment in arrears.

The budget proposal significantly increases the size of the GCC. The budget proposes a budget of \$10.9 million for State Operations, an increase of \$2.6 million or 30.7 percent. The budget also proposes to increase GCC staff by 22.8 positions, or 50 percent. The specific budget augmentation proposals are highlighted below.

Of the total funding for the GCC, \$126.5 million is for local assistance. Of this amount, \$96.5 million is for distribution from the Revenue Sharing Trust Fund to non-gaming tribes as specified in the compacts and \$30 million is for distribution to locals to mitigate the effects of tribal gaming operations.

Proposed Vote Only Issues

Issue Title	Positions	Dollars
A. Administrative, Information Technology, and Legal Workload. Requests \$476,000 (\$143,000 Gambling Control Fund, \$333,000 Indian Gaming Special Distribution Fund) and 4.5 positions to address administrative workload needs related to budget, accounting, personnel, and information technology. (Special Funds)	4.5	\$476,000
B. Third Party Program Licensing Workload. Requests funding of \$184,000 from the Gambling Control Fund to make permanent 2.5 limited term positions due to expire June 30, 2006. These positions would continue to administer the Third Parties and Gambling Business registration and licensure program. (Special Fund)	2.5	\$184,000

Staff Recommendation. No issues have been raised by the LAO or staff on the vote-only issues. Staff recommends approval of these vote-only issues.

Action.

Discussion Issues

1. Licensing, Audit, and Field Inspection Augmentation.

Budget Request. The budget proposes to provide \$1.7 million (\$911,000 Special Distribution Fund, \$396,000 Gambling Control Fund, and \$359,000 General Fund) and 14.5 positions to augment licensing and audit workload and to establish a field inspection program. Specifically, this request proposes:

- 5.5 positions to expand its licensing division, which currently has 7.5 authorized positions. (In addition, the budget proposes to make permanent 2.5 limited-term licensing program positions related to the Third Party Program Licensing noted in the table above).
- 6 auditors and support staff, to expand a current staff of 9 auditors.
- 3 analysts and technicians for a new field inspection program, principally to inspect gaming devices quarterly under terms of the 2004 compacts.

Analyst's Concerns. The LAO indicates that they generally agree with the administration that the Legislature should expand the commission's staff. However, the LAO has raised the following concerns with components of the proposal:

Field Inspection Positions. The field inspection teams would be supported by a new five-member technical services, research, and testing unit to assist commissioners and staff with technical issues associated with the functioning, integrity, and operations of today's advanced gambling equipment. The LAO notes that the research unit positions are proposed on a two-year, limited-term basis. The LAO believes that the GCC needs to show that these new units produce more benefit for the state, gambling patrons, and tribes than they cost. Consequently, the LAO recommends that the new positions in the inspections unit – like those proposed for the new technical resources unit – be approved on a two-year limited-term basis.

Audit Staff Expansion. The LAO indicates that the GCC has completed only about six full audits of tribes since its inception, citing several provisions of the state's compacts that restrict its ability to audit tribal operations effectively. The LAO notes that expanded workloads and turnover also seem to be responsible for some of the poor record to date. Until the commission can provide evidence of improving productivity of existing staff, the LAO believes that expansion is not warranted. Therefore, the LAO recommends that the Legislature reject the proposal to expand the auditing staff at this time, reducing the total costs of the expansion proposal by approximately \$435,000.

Use of General Fund Dollars. The commission currently receives all operational funding from the Special Distribution Fund (SDF) and the Gambling Control Fund (for cardroom regulation), which receive gambling-related fees and revenues. The administration proposes to fund part of the costs of the commission's expansion (as well as that of Department of Justice's investigative activities) from the General Fund. The administration's rationale is that, since some tribes make payments to the General Fund, a proportion of regulatory costs should also be paid from the General Fund. The LAO notes that state law and the compacts allow commission regulatory funding to come from SDF. (The SDF is projected to have a fund balance of \$113 million at the end of 2006-07). The LAO, therefore, recommends continuing to fund commission regulatory activities exclusively from revenues derived from the industry itself, as is usually the case with other regulatory agencies. Shifting costs from the General Fund to the SDF results in a General Fund benefit of \$725,000 (\$359,000 from this proposal and \$366,000 from the technical services program).

Staff Comments.

- *Field Inspection Positions.* The GCC has indicated that it does not object to making the field inspection positions two-year limited-term, consistent with the Technical Services Program positions.
- *Audit Staff Expansion.* The GCC has indicated that four Special Deposit Fund (SDF) audits have been completed to-date, that field work has been completed on an additional two audits, and that the field work has begun on an additional three audits. The GCC has provided information to the Subcommittee indicating that it could complete 6 to 8 SDF audits in the budget year with current audit staffing, and it could complete 8 to 11 SDF audits if the additional audit positions filled and trained by November 2006.
- *Use of General Fund Dollars.* Under the proposal submitted last year, all of the funding was proposed from the SDF.

Staff Recommendation. Consistent with the LAO recommendations, staff recommends: (1) adoption of the Field Inspection positions on a two-year limited-term basis; (2) rejection of the six new audit positions (reduce proposal by \$435,000 and six positions); and (3) shift costs from the General Fund to the SDF (reduce GF by \$335,000 and increase SDF by \$335,000).

Action.

2. Technical Services Program.

Budget Request. The budget proposes \$732,000 (\$366,000 General Fund and \$366,000 SDF) and five positions on a two-year limited-term basis to develop a Technical Services Program, Research and Testing Unit. The primary purpose of the Technical Services Program is to provide essential technical support, guidance, and direction to the gaming device field inspection program. The proposal requests two computer/electrical engineer positions, one statistician/mathematician position, one management services technician, and one special consultant position.

Use of General Fund Dollars. The LAO recommends shifting costs from the General Fund to the SDF resulting in a General Fund benefit of \$366,000 to the General Fund.

Staff Comments. Staff notes that the Technical Services Program is similar to the field inspection support positions that were approved by Subcommittee No. 4 last year.

Staff Recommendation. Staff recommends approval of the Technical Services Program on a two-year limited-term basis, with all the funding coming from the SDF (reduce GF by \$366,000 and increase SDF by \$366,000).

Action.

3. Budget Control Language – Authorization for the Director of Finance to Augment Expenditures

Budget Request. Provision 2 of Budget Item 0855-101-0367 authorizes the Director of Finance to augment the amount available for local mitigation from the Special Distribution Fund (SDF).

Staff Comments. The GCC indicates that this provision has not been used to-date to augment expenditure authority from the SDF. Staff notes that the Administration has several opportunities during the budget process to request an augmentation to the amount appropriated from the fund should revenues increase.

Staff Recommendation. Staff recommends deletion of Provision 2 of Budget Item 0855-101-0367.

Action.